



OFFICIAL STUDY GUIDE 2001 EDITION



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COLLEGE-LEVEL EXAMINATION PROGRAM

Introductory Business Law

Description of the Examination

The Subject Examination in Introductory Business Law covers subject matter usually taught in an introductory one-semester college course in this subject. The exam places major emphasis on understanding the functions of contracts in American business law, but also includes questions on the history and sources of American law; legal systems and procedures; agency and employment; sales; and other topics.

The exam is 90 minutes long and includes approximately 100 multiple-choice questions to be answered in two separately timed 45-minute sections.


Knowledge and Skills Required

Questions on the exam require candidates to demonstrate one or more of the following abilities.

- Knowledge of basic facts and terms (about 30-35 percent of the exam)
- Understanding of concepts and principles (about 30-35 percent of the exam)
- Ability to apply knowledge to specific case problems (about 30-35 percent of the exam)

The subject matter of the Introductory Business Law exam is drawn from the following topics.

➡	<i>Approximate Percent of Examination</i>
11%	History and sources of American law
12%	American legal systems and procedures

<hr/>  <i>Approximate Percent of Examination</i> <hr/>	
60%	<ul style="list-style-type: none">Contracts<ul style="list-style-type: none">Meaning of termsFormation of contractsConsiderationJoint obligationsContracts for the benefit of third partiesAssignment /DelegationStatute of fraudsScope and meaning of contractsBreach of contractBar to remedies for breach of contractDischarge of contractsIllegal contracts
3%	<ul style="list-style-type: none">Agency and employment
4%	<ul style="list-style-type: none">Sales
10%	<ul style="list-style-type: none">Miscellaneous<ul style="list-style-type: none">TortsPropertyProduct liabilityCommercial paperConsumer protection

Sample Questions

The 24 sample questions that follow are similar to questions on the Introductory Business Law exam, but they do not appear on the actual exam. CLEP exams are designed so that average students completing a course in the subject can usually answer about half the questions correctly.

Before attempting to answer the sample questions, read all the information about the Introductory Business Law exam on the preceding pages. Additional suggestions for preparing for CLEP exams are provided in Chapter 1.

Try to answer correctly as many questions as possible. Then compare your answers with the correct answers, given at the end of this examination guide.

Directions: Each of the questions or incomplete statements below is followed by five suggested answers or completions. Select the one that is best in each case.

1. The authority of a court to hear and decide cases is known as
(A) jurisdiction (B) habeas corpus
(C) demurrer (D) quo warranto
(E) stare decisis (A) (B) (C) (D) (E)
2. Law that is formed by a group of individuals, acting as representatives for other individuals, is best termed
(A) criminal law (B) civil law
(C) legislative law (D) adjective law
(E) tort law (A) (B) (C) (D) (E)
3. A contract will be unenforceable if
(A) one party to the contract feels he or she has been taken advantage of
(B) a statute declares such a contract illegal
(C) performance becomes difficult
(D) public authorities voice disapproval of the contract
(E) the parties involved believe the contract to be illegal
(A) (B) (C) (D) (E)
4. Angela promises to work for Barbara during the month of July, and Barbara promises to pay Angela \$600 for her services. In this situation, what kind of contract has been made?
(A) Unilateral (B) Executed (C) Quasi
(D) Bilateral (E) Bilingual (A) (B) (C) (D) (E)
5. Which of the following is an essential element of fraud?
(A) Injury to a business interest
(B) Misrepresentation of a material fact
(C) Destruction of property
(D) Knowledge of the consequences
(E) Mistake about the identity of the subject matter (A) (B) (C) (D) (E)

6. Clyde received the following letter from Joe: "I will sell you the books you examined yesterday for \$10 each or \$100 for the entire set." Clyde, not sure he would get much use from the books, told his brother, Michael, about the offer. Michael tendered Joe \$100 for the books, but Joe refused to sell the books to Michael.

If Michael sued Joe, the court would probably hold that Michael

- (A) can accept the offer because he is Clyde's brother
- (B) can accept the offer if he will do so within a reasonable period of time
- (C) cannot accept the offer until Clyde's rejection is communicated to Joe
- (D) cannot accept the offer because it was not made to him
- (E) cannot accept the offer unless he does so in writing

(A) (B) (C) (D) (E)

7. All of the following have the right to enforce a contract EXCEPT

- (A) a third-party creditor beneficiary
- (B) an assignee
- (C) a third-party donee beneficiary
- (D) a transferee
- (E) a third-party incidental beneficiary

(A) (B) (C) (D) (E)

8. A method of discharging a contract that returns each party to his or her original position is

- (A) an assignment
- (B) an accord
- (C) a revocation
- (D) a rescission
- (E) a novation

(A) (B) (C) (D) (E)

9. A contract clause that requires both parties to act simultaneously is called a

- (A) condition subsequent
- (B) condition concurrent
- (C) condition precedent
- (D) negative condition
- (E) restrictive condition

(A) (B) (C) (D) (E)

10. Benson, a seventeen-year-old college freshman, was adequately supplied with clothes by his father. Smith, a clothing merchant, learned that Benson was spending money freely and solicited clothing orders from him. Benson bought \$750 worth of ready-made clothing from Smith on credit. Benson failed to pay Smith.

If Smith sued Benson, the court would probably hold that

- (A) Benson is liable for the \$750 because by accepting and wearing the clothes he ratified the contract
- (B) Benson is not liable for the reasonable value of the clothing because Smith solicited the sales
- (C) Benson can disaffirm the contract, return the clothing, and escape liability
- (D) Benson is liable for the \$750 because under these circumstances the clothing was a necessity
- (E) Benson's father is liable to Smith for the \$750

(A) (B) (C) (D) (E)

11. The enforcement of a contract may be barred, according to operation of law, by

- (A) a merger
- (B) a consolidation
- (C) a material breach
- (D) the statute of limitations
- (E) a novation

(A) (B) (C) (D) (E)

12. A purchase from each of the following would be considered a purchase in the ordinary course of trade or business EXCEPT a purchase from a

- (A) pawnshop
- (B) department store
- (C) supermarket
- (D) discount department store
- (E) used car lot

(A) (B) (C) (D) (E)

13. Which of the following promises would be enforceable by the majority of courts?

- (A) Avery finds Bond's dog and returns it to Bond. Later Bond promises to pay Avery a reward.
- (B) Husband, in consideration of the love and affection given him by Wife, promises to pay her \$1,000.
- (C) Avery is extremely ill and placed in a hospital. Avery's neighbor, Bond, mows Avery's yard while Avery is recuperating. Later Avery promises to pay Bond the reasonable value of his services.
- (D) Avery owes Bond \$100, which debt is discharged in bankruptcy. Later Avery writes Bond a letter promising to pay Bond the \$100.
- (E) Daughter mows the family yard. In absence of an express agreement, Daughter can claim an implied promise on Father's part to pay for her services.

(A) (B) (C) (D) (E)

14. Base Electric Company has entered an agreement to buy its actual requirements of brass wiring for six months from the Valdez Metal Wire Company, and Valdez Metal Wire Company has agreed to sell all the brass wiring Base Electric Company will require for six months. The agreement between the two companies is

- (A) valid and enforceable
- (B) unenforceable because of lack of consideration
- (C) unenforceable because it is too indefinite
- (D) lacking in mutuality of obligations
- (E) illusory

(A) (B) (C) (D) (E)

15. Ordinarily an employer is liable for which of the following acts committed by an employee for the benefit of the employer and in the scope of the employment?

- I. Torts
- II. Contracts
- III. Misrepresentations

- (A) I only
- (B) II only
- (C) III only
- (D) II and III only
- (E) I, II, and III

(A) (B) (C) (D) (E)

16. Abbott was orphaned at the age of five. For the next fifteen years his material needs were met by his uncle, Barton. On his thirtieth birthday, Abbott wrote Barton and promised to pay him \$100 per month as long as Barton lived. Abbott never made any payments. Barton died ten months later.

If Barton's estate sued Abbott for the amount of the promised payments, the court would probably hold that Barton's estate is

- (A) not entitled to recover because past consideration will not support Abbott's promise
- (B) not entitled to recover because of the statute of limitations
- (C) not entitled to recover unless it can be shown that Barton's relatives were in desperate need
- (D) entitled to recover on the promise
- (E) entitled to recover because of Barton's previous aid to Abbott

(A) (B) (C) (D) (E)

17. An agreement among creditors that each will accept a certain percentage of his or her claim as full satisfaction is called

- (A) accord and satisfaction (B) creditor agreement
- (C) composition of creditors (D) liquidation
- (E) bankruptcy

(A) (B) (C) (D) (E)

18. Which of the following decisions could NOT be made by an appellate court?

- (A) Ordering a case to be tried in the appellate court
- (B) Affirming a decision of a lower court
- (C) Instructing a lower court to enter a judgment in accordance with the appellate court's opinion
- (D) Remanding a case for a new trial
- (E) Reversing the decision of a lower court

(A) (B) (C) (D) (E)

19. Upon delivery of nonconforming goods, a buyer may do which of the following?
- I. Reject all the goods.
 - II. Accept all the goods.
 - III. Accept those units which conform and reject the rest.
- (A) I only (B) III only (C) I and II only
 (D) II and III only (E) I, II, and III
20. All of the following are usual functions performed by judges of trial courts having general jurisdiction EXCEPT
- (A) issuing writs of habeas corpus
 - (B) conducting pretrial conferences in civil cases
 - (C) determining questions of fact in equity cases
 - (D) guiding the jury on questions of law in criminal and civil cases
 - (E) imposing pretrial settlements on parties who cannot agree
21. Which of the following will apply if the parties to a contract knew or should have known that a word has a customary usage in their particular trade or community?
- (A) No contract will result if the parties cannot voluntarily agree on the definition of the word.
 - (B) Parol evidence may not be used to define the meaning of the word.
 - (C) Parol evidence may be used to define the meaning of the word.
 - (D) Courts will not impose a definition that is contrary to the meaning supported by one party.
 - (E) A mistaken assumption regarding the definition by one of the parties will result in a voidable contract.

(A) (B) (C) (D) (E)

(A) (B) (C) (D) (E)

(A) (B) (C) (D) (E)

22. Webster insured her residence with Old Home Insurance Company. Assuming that the policy contained no provision with respect to assignment, which of the following statements is correct?
- (A) Webster may assign the policy to any person having capacity to contract.
 - (B) If Webster suffers an insured loss, she may assign the amount due under the policy to anyone.
 - (C) If Webster sells her residence, she must assign the policy to the purchaser.
 - (D) If Webster suffers an insured loss, she may assign the amount due under the policy only to a party furnishing material or labor for repair of the residence.
 - (E) Webster may assign the policy to any person having capacity to contract who agrees to pay the premium.
- (A) (B) (C) (D) (E)
23. Recovery in quasi contract is based on a judgment that determines the presence of
- (A) unjust enrichment
 - (B) an express contract
 - (C) an implied in fact contract
 - (D) a violation of the statute of frauds
 - (E) mutual mistake
- (A) (B) (C) (D) (E)
24. A modern-day body of law that can be traced to the early law merchant is
- (A) the administrative system
 - (B) the Uniform Commercial Code
 - (C) constitutional law
 - (D) civil law
 - (E) the court of equity
- (A) (B) (C) (D) (E)

Study Resources

To prepare for the Introductory Business Law exam, you should study the contents of at least one textbook used in business law courses at the college level, focusing on the topics listed in the “Knowledge and Skills Required” section on pages 1-2 and omitting topics that are not included in the section. Most textbooks contain many cases and case problems in addition to text material on theory and principles. Most also contain the complete text of the Uniform Commercial Code and a glossary of law terms. Although most textbooks cover the topics listed in the “Knowledge and Skills Required” section, they may vary somewhat in content, approach, and emphasis. You may therefore wish to consult more than one textbook on the major topics. You can find textbooks used in college level business law courses in many college bookstores. The Internet is another resource you should explore.

Additional suggestions for preparing for CLEP exams are given in Chapter 1.

Answers to Sample Questions

Introductory Business Law

1. A
2. C
3. B
4. D
5. B
6. D
7. E
8. D
9. B
10. C
11. D
12. A
13. D
14. A
15. E
16. A
17. C
18. A
19. E
20. E
21. C
22. B
23. A
24. B